ORS Kristiansand Symposiet - 16. juni 2009

Kjøp av enkelteiendeler ifht virksomhetssammenslutninger
Byttetransaksjoner (farm-ins)

Lars Ragnar Vigdel

Chief Accountant Policies – Corporate Accounting StatoilHydro

StatoilHydro

Agenda

- Acquisitions of assets vs business combinations
- Farm-ins and farm-outs

Acquisition of assets vs Business combinations

Method of accounting

- All business combinations shall be accounted for by applying the **purchase method** (IFRS 3.14)
  - “allocate cost of a business combination … the acquiree’s identifiable assets, liabilities and contingent liabilities … at their fair values.” “Any difference between the cost of the business combination and the acquiree’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised …” => GOODWILL

- “When an entity acquires a group of assets or net assets that does not constitute a business, it shall allocate the cost of the group between the individual identifiable assets and liabilities in the group based on their **relative fair values** …” (IFRS 3.4) => No goodwill; No deferred tax on initial recognition (IAS 12.15)

Business – definition in IFRS 3, appendix A

- "An integrated set of activities and assets conducted for the purpose of providing
  - (a) a return to investors; or
  - (b) lower costs or other economic benefits directly and proportionately to policyholders or participants

  - A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set shall be presumed to be a business

Defining a business – IFRS 3, BC12-BC15

- Does not require a business to be self-sustaining
- Activities and assets in the development stage - no presumption that cannot be a business
- Goodwill present - presumption of business

Upstream value chain cycle (IASC Issues Paper)

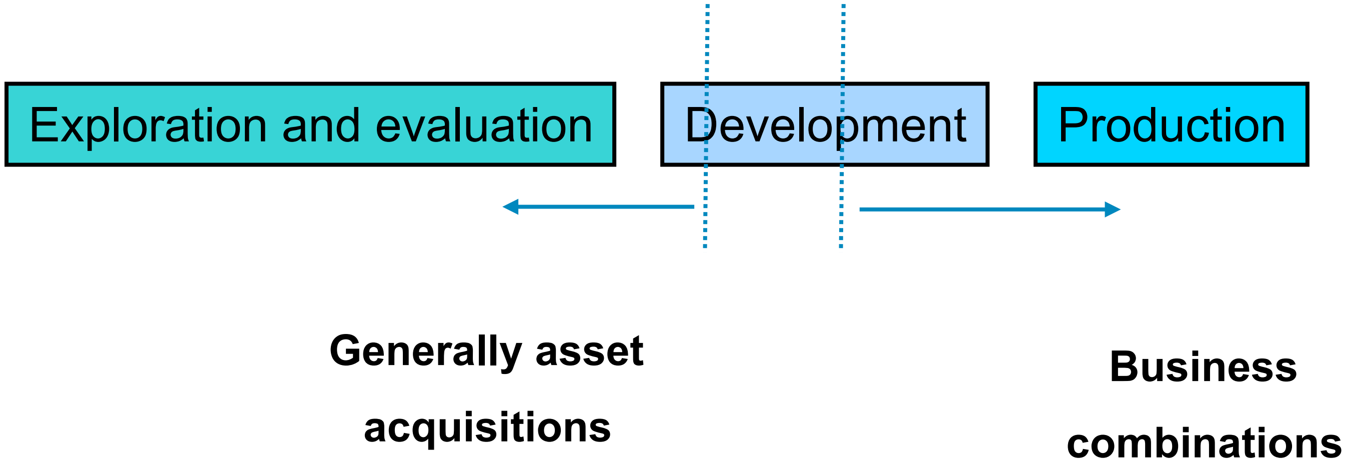
Prospecting | Acquisition of mineral rights | Exploration | Appraisal/Evaluation →

Development | Construction →

Production →

Closure and decommissioning

Upstream value chain cycle



Asset acquisitions vs business combinations

Ernst & Young International GAAP (upstream projects) :

- Early phases => often not a business
- Later phases => more difficult to determine

  - "… In general, we believe that as an acquired activity moves closer to production it is more likely that the assets or group acquired represents a business"

Asset acquisitions vs business combinations

PricewaterhouseCoopers Financial Reporting in the oil and gas industry (upstream activities):

- Producing assets => business
- Exploration stage assets => typically represent a collection of assets
- Development stage assets => require consideration of the stage of development and other relevant factors

Asset acquisitions vs business combinations

IFRS 3 BC 14 – Assets in development stage might constitute business if significant resources in the nature of goodwill

- What about research phase?

- An entity who owns and performs development on a portfolio of licences vs on one licence, will more often be presumed to constitute a business
  - Some will prove commercial reserves and others not
- Listing of the shares on an exchange - could be an indicator of business

Asset acquisitions vs business combinations

- What activities are performed in relation to the licenses / assets
  - Extent and nature of activities
  - Objective of activities to provide return to the investors?
  - Have the activities performed resulted in proved resources
  - Have the activities performed resulted in an increase in value of the licences/assets

Asset acquisitions vs business combinations

- Value of goodwill (employees, etc.) in relation to total consideration
  - Materiality relevant?

Asset acquisitions vs business combinations IFRS 3 R

“B10 An integrated set of activities and assets in the development stage might not have outputs. If not, the acquirer should consider other factors to determine whether the set is a business. Those factors include, but are not limited to, whether the set:

(a) has begun planned principal activities;

(b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;

(c) is pursuing a plan to produce outputs; and

(d) will be able to obtain access to customers that will purchase the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets in the development stage to qualify as a business.”

Asset acquisitions vs business combinations IFRS 3 R

- B11 Determining whether a particular set of assets and activities is a business should be based on whether the integrated set is capable of being conducted and managed as a business by a market participant. Thus, in evaluating whether a particular set is a business, it is not relevant whether a seller operated the set as a business or whether the acquirer intends to operate the set as a business.
- B12 In the absence of evidence to the contrary, a particular set of assets and activities in which goodwill is present shall be presumed to be a business. However, a business need not have goodwill.

Asset acquisitions vs business combinations IFRS 3 R

StatoilHydro, Statutory report 2008

Business combinations and goodwill

In order for a business combination to exist, the acquired asset or group of assets must constitute a business (an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors), which generally consists of inputs, processes and outputs. This requires judgment to be applied on a case by case basis as to whether the acquisition meets the definition of a business combination. Acquired exploration and evaluation licences for which no decision has been made to develop are treated as asset purchases based on provisions in IFRS 6. Acquisitions of licences for which a development decision has been made are assessed under the criteria described above to establish whether the transaction represents a business combination or an asset purchase.

Farm-ins and farm-outs

E&Y International GAAP: Farm-in/farm-out: “the transfer of part of an oil and gas interest in consideration for an agreement by the transferee (“farmee”) to meet, absolutely, certain expenditure which would otherwise have to be undertaken by the owner (“farmor”).

Farm-in transactions generally occur in the exploration or development phase and are characterised by the transferor (“farmor”) giving up future economic benefits, in the form of reserves, in exchange for a reduction in future funding obligations.

Farm-in arrangements within the scope of IFRS 6?

E&Y International GAAP => Yes as the arrangements leads to the acquisition of an E&E asset by the “farmee” and a disposal by the “farmor”

Farm-ins and farm-outs outside the E&E phase

- A farm in/out transaction represent an acquisition (farmee) and a disposal (farmor)
- IAS 38: exchange of assets – measure at fair value, unless lacks commercial substance, or fair value is not reliably measurable
- Farmee
  - recognises an asset that represents the underlying partially undeveloped interest acquired at cost in accordance with IAS 16 or IAS 38, and
  - recognise a liability that reflects the obligation to fund the farmor's share of the future investment from which the farmee itself will not derive any future economic benefits

Farm-ins and farm-outs outside the E&E phase

- Farmor should
  - derecognise the proportion of the asset that it has sold to the farmee
  - recognise the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor
  - recognise a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of (when the value of the consideration can be determined reliably)
  - (test the reatined interest for impairment if the terms of the arrangement indicate that the retained interest may be impaired)

Farm-ins and farm-outs in the E&E phase

- Farmee recognises its expenditure for its own interest and that retained by the farmor, as and when the costs are incurred (in the same way as directly incurred E&E expenditure)
- Farmor does **not**
  - record any expenditure made by the farmee on its behalf
  - recognise a gain or loss on the arrangement,
- but credit potential cash considerations received against costs previously capitalised in relation to the whole/old interest with any excess recognised as a gain on disposal

Farm-ins and farm-outs in the E&E phase

StatoilHydro Accounting Policies:

For exploration and evaluation asset acquisitions (farm-in arrangements) in which the group has made arrangements to fund a portion of the selling partners' (farmor's) exploration and/or future development expenditures, these expenditures are also reflected in the financial statements as and when the exploration and development work progresses, in line with the group's policy.

Exploration and evaluation asset dispositions (farm-out arrangements) are accounted for on a historical cost basis with no gain or loss recognition.

Exchanges (swaps) of exploration and evaluation assets are accounted for at the carrying amount of the assets given up with no gain or loss recognition.

Other transactions with “similar” characteristics

- Exchanges of assets
  - Accounting treatment depending on whether
    - Only E&E assets
    - Other assets covered by IAS 16 or IAS 38 involved

- Unitisations
- Redeterminations